

Message Text

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ACTION EB-07

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FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC 4895

C O N F I D E N T I A L ALGIERS 1804

E.O. 11652: GDS

TAGS: ENRG, AG

SUBJECT: SIGNATURE OF LNG-III CONTRACT

SUMMARY: SONATRACH AND US FIRM FOSTER-WHEELER HAVE SIGNED CONTRACT FOR CONSTRUCTION OF MAJOR LNG FACILITY WORTH ABOUT \$1.3 BILLION. FINANCING FOR PLANT PRESENTS FORMIDABLE OBSTACLE IN NEAR TERM, AND FULL SCALE CONSTRUCTION WORK LIKELY TO BE SEVERAL YEARS AWAY. END SUMMARY.

1. ACCORDING TO PRESS, SONATRACH AND FOSTER-WHEELER CORP. (US) HAVE SIGNED MAJOR CONTRACT FOR CONSTRUCTION OF LNG-III. PALNT, WHICH WILL BE BUILT AT ARZEW, WILL HAVE CAPACITY OF 15.75 BILLION CUBIC METERS PER YEAR FROM NINE LNG LINES. PLANT WILL ALSO PRODUCE 500,000 TONS PER YEAR OF PROPANE AND 450,000 TONS PER YEAR OF BUTANE. PRESS REPORT CLAIMS THAT PRODUCTION WILL BEGIN IN 1979.

2. BASED ON PROJECTED COSTS OF LNG-II, EMBASSY ESTIMATES THAT CONSTRUCTION OF LNG-III WILL COST IN RANGE OF \$1.3 BILLION.

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3. CONTRACT BRINGS TO THREE NUMBER OF MAJOR LNG PLANTS SLATED TO BUILT AT ARZEW. LNG-I (QPMT BILLION CUBIC METERS PER YEAR) IS NOW UNDER CONSTRUCTION BY BECHTEL INTERNATIONAL, AND CONTRACT FOR LNG-II (ALSO 10.5 BILLION CUBIC METERS PER YEAR) WAS GIVEN TO M.W. KELLOGG SEVERAL MONTHS AGO. SUPPLEMENTARY GAS TREATMENT FACILITIES AT HASSI R'MEL HAVE BEEN CONTRACTED AND PORT EXPANSION AT ARZEW IS UNDERWAY.

4. EMBOFF ASKED RACHID DJELLALI OF SONATRACH FINANCIAL DIVISION JULY 19 WHETHER LNG-III WOULD NOT COMPETE WITH LNG-II FOR FINANCING AND THUS COMPROMISE LNG-II'S CHANCES OF SUCCESS. THIS DJELLALI DENIED, BUT DID NOT EXPLAIN HOW THIS COMPETITION TO BE AVOIDED. EMBOFF THEN ASKED WHY LNG-III SIGNED AT THIS TIME. DJELLALI SAID THAT PROJECT SIGNED WITH AIM OF GETTING FOSTER WHEELER TO BEGIN NECESSARY STUDIES AND TO BEGIN TO CONSIDER SOURCES OF EQUIPMENT AND FINANCING SO THAT "NO TIME WOULD BE LOST ON LNG"III".

5. COMMENT: FINANCING PROBLEMS FOR \$1.3 BILLION

LNG-III FACILITY AT THIS STAGE APPEAR FORMIDABLE IN SHORT TERM. BEFORE ALGERIANS CAN HOPE TO PUT TOGETHER FINANCING PACKAGE FOR LNG-III, THEY HAVE FOLLOWING OTHER FINANCIAL PROBLEMS TO RESOLVE IN THEIR LNG PROGRAM:

A. COST OVERRUN FINANCING FOR LNG-I MUST BE LOCATED. \$200 - \$300 MILLION IN ADDITIONAL LOANS WILL BE NEEDED, SOME OF WHICH ALGERIAN HOPE WILL COME FROM US EXIMBANK.

B. LNG-88 FINANCING MUST BE TAKEN CARE OF. LNG-II WILL COST ABOUT \$900 MILLION IN FOREIGN EXCHANGE, AND DESPITE FACT THAT CONTRACT SIGNED SEVERAL MONTHS AGO, ALGERIANS SO FAR HAVE FIRM COMMITMENTS FOR ONLY ABOUT ONE-THIRD OF NECESSARY FUNDS. KELLOGG PLANS TO BEGIN CONSTRUCTION OF PLANT WHEN BELGIAN FUNDS BECOME

AVAILABLE IN SEPTEMBER 1976. MAJOR PIECES OF EQUIPMENT WILL APPARENTLY BE PURCHASED AS FUNDS BECOME AVAILABLE IN SEVERAL OTHER COUNTRIES. PARTICIPATION OF US EXIMBANK IN CONFIDENTIAL

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LNG-II FINANCING, WHICH APPEARS TO BE KEY TO FINDING ADEQUATE FINANCIAL RESOURCES, REMAIN OPEN QUESTION, HOWEVER.

C. ALGERIANS PLAN TO OWN HALF OF TANKERS EXPORTING THEIR LNG. ALGERIAN TANKERS FOR LNG-II (BASED ON 60 PER CENT OF OUTPUT GOING TO US) WOULD COST IN RANGE OF \$400 MILLION, AND WOULD HAVE TO BE ENTIRELY FINANCED.

6 WE UNSURE WHY ALGERIANS CHOSE TO SIGN LNG-III AT THIS
TIME. PERHAPS IT WAS PUBLIC RELATION GESTURE; PERHAPS
ALGERIANS GENUINELY BELIEVE SIGNATURE AT THIS TIME WILL
SAVE THEM BOTH TIME AND MONEY. WHATEVER THE REASON,
FINANCIAL RESOURCES FOR LNG-III WILL BE EXTREMELY
DIFFICULT TO FIND, AND FULL SCALE CONSTRUCTION ON
LNG-III WOULD APPEAR TO BE SEVERAL YEARS AWAY. PARKER

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